VZCZCXYZ0012
OO RUEHWEB

DE RUEHKG #0737/01 3231441
ZNY CCCCC ZZH
O 191441Z NOV 09
FM AMEMBASSY KINGSTON
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0253
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE
RUEHDG/AMEMBASSY SANTO DOMINGO IMMEDIATE
RUEHLO/AMEMBASSY LONDON IMMEDIATE 0080
RUEHOT/AMEMBASSY OTTAWA IMMEDIATE
RUEHKG/AMEMBASSY KINGSTON

C O N F I D E N T I A L KINGSTON 000737

SIPDIS
STATE FOR WHA/CAR (VDEPIRRO) (WSMITH) (JMACK-WILSON)
WHA/EPSC (MROONEY) (FCORNEILLE)
EEB/ESC/IEC (GGRIFFIN)
EEB/ESC/IEC/EPC (MMCMANUS)
INR/RES (RWARNER)
INR/I (SMCCORMICK)
SANTO DOMINGO FOR FCS AND FAS
TREASURY FOR ERIN NEPHEW
EXPORT IMPORT BANK FOR ANNETTE MARESH
USTDA FOR NATHAN YOUNG AND PATRICIA ARRIAGADA
OPIC FOR ALISON GERMAK

E.O. 12958: DECL: 2034/11/19
TAGS: ECON EFIN EINV ETRD SOCI PINR PREL IADB IMF TRSY JM
XL
SUBJECT: Jamaica: Private Sector Nervous Over Delay in IMF Deal; Risk of Capital Flight Rises

REF: KINGSTON 601; KINGSTON 914; KINGSTON 956; KINGSTON 121
KINGSTON 735

CLASSIFIED BY: Isiah Parnell, CDA; REASON: 1.4(B), (D)

Summary

¶1. (C) Prime Minister (PM) Bruce Golding's lack of political courage in making difficult decisions has created a crisis of confidence in the private sector. His promise of an imminent International Monetary Fund (IMF) Standby Agreement worth USD 1.2 billion has set him, as well as his Jamaica Labour Party (JLP) administration, up for a major failure, as negotiations face delays and the exact amount of the deal remains uncertain. In turn, PM Golding appears to be losing confidence in his Finance Minister, Audley Shaw, and has told members of the private sector that he wants to take the lead personally on IMF negotiations. Uncertainty and apprehension are mounting in the private sector, as investors fear a muted IMF deal could set the stage for panic in the financial markets. More sophisticated investors already are moving to more secure assets such as US dollars, and the risk of capital flight looms large. Jamaica also suffered another downgrade from rating agency Moody's to Caa1 with a negative outlook. At least two of the three major financial institutions holding domestic debt have expressed a willingness to broker a restructuring deal, but the Government of Jamaica (GOJ) appears incapable of seizing the initiative. Fiscal indiscipline and a strategy of merely muddling through successive crises have the island perched precariously on the edge of an abyss: unless bold steps are taken to restore confidence, the nation's continuing economic decline could pass a point of no return. End Summary

Private Sector's Mounting Concerns...

¶2. (C) On November 16, Emboffs met with Patrick Hylton, Managing Director of National Commercial Bank (NCB), who voiced a rising level of concern regarding the grave economic challenges facing the

country. NCB is Jamaica's largest financial institution and the largest holder of GOJ debt. Hylton said he already has seen a movement to U.S. dollar assets, as investors fear greater troubles on the horizon. (NOTE: Other key Emboff contacts have expressed similar views while admitting that they themselves are moving into U.S. dollar denominated assets, some even taking their resources out of the country entirely. END NOTE). Hylton commented that Jamaicans are still skittish after watching the collapse of financial institutions such as Bear Stearns and Lehman Brothers in the United States, and are fearful of something similar occurring locally.

...IMF Deal is At The Center

¶3. (C) On November 18, Emboffs met with Richard Byles, President and CEO of Sagicor Life Jamaica, a provider of insurance and financial products, to discuss economic conditions and the status of negotiations with the IMF. Sagicor, along with NCB, is one of the three major holders of GOJ debt. Byles is convinced that the best case scenario for Jamaica in the near term is a deal with the IMF that restores confidence to the markets. However, he fears that if a deal is delayed or watered down, then there will be a loss of confidence leading to a run on the Jamaica dollar, which would force the Bank of Jamaica (Central Bank) to try to defend the local currency by hiking interest rates -- an eventuality he said would indicate an economic meltdown and spell the end for the economy. The private sector appears to recognize that an IMF deal that is not combined with robust measures to address the exorbitant debt overhang will merely stave off an inevitable default. On November 19, Jamaica suffered another downgrade on its local and foreign currency bonds by international rating agency Moody's. The downgrade to Caa1 from B2 with a negative outlook was in response to the agency's belief that Jamaica is close to defaulting on its debts. The delays in securing an IMF agreement were part of the justification for the downgrade.

Private Sector Has Lost Confidence In Golding

¶4. (C) Byles said that PM Golding lacks the leadership to address the current crisis facing the country, and that the private sector has lost faith in him and Shaw. Hylton echoed Byles, noting that his confidence in PM Golding and his administration had fallen significantly in the past year and that the private sector no longer sees him as able to manage through this crisis. This is particularly troubling because, according to Byles, PM Golding has said he intends to personally take the lead in the current IMF negotiations. Golding has a history of making numerous personnel changes in key leadership positions over the past two past years (Reftel A). Byles describes the PM as articulate in discussing the issues, but noted that he has a tendency to make knee jerk decisions when the situation requires a calm and steady hand.

¶5. (C) Hylton also expressed disappointment in the manner in which the GOJ handled the recent dismissal of Derick Latibeaudiere, the Governor of the Bank of Jamaica, who had been leading the IMF negotiations (Reftel B). Hylton called Latibeaudiere's removal during the middle of a visit by the IMF delegation very poor timing, adding that it sends the world the wrong message about stability. Hylton recognized that Latibeaudiere had his opponents, but added that even if one disagreed with his policies, he was still predictable and communicated his moves to the private sector. He said Latibeaudiere had become an institution in his 13 years as Governor at the BOJ, and that it will take time to rebuild that level of confidence in the new Governor, Bryan Wynter, even though he formerly served at the BOJ and is highly respected. Hylton noted that this was not the time to be rebuilding confidence in your Central Bank.

Private Sector Must Lead On Debt, But Faces Prisoners' Dilemma

--- ---------------------

¶6. (C) Byles said that he does not know Golding all that well, but he meets with both him and Shaw. These meetings also include representatives from NCB and the Bank of Nova Scotia (the third major holder of GOJ debt). However, Byles lamented that these meetings never seem to result in any viable solutions to the country's debt problems. He suggested that perhaps he and the other two key players will need to formulate a debt restructuring plan on their own that will provide breathing room for the GOJ, without overburdening debt holders. Byles emphasized that time was of the essence and that no one player was going to be a first mover. Thus, it may become crucial that the major debt holders coordinate on a plan, particularly because the GOJ appears incapable of seizing the initiative to broker a deal. Hylton also voiced support for a debt restructuring deal, but said that he was waiting for the other major financial institutions to make the first move. He said he would not make concessions that competitors were not making, as well. He emphasized that his primary responsibility was to protect shareholder value.

Debt - How Much to Restructure

¶7. (C) Byles suggested that the GOJ needs to fill a JD$ 28 Billion (USD 316 million) gap in the fiscal accounts. This equates to about four percent of the JD$700 billion (USD 7.9 billion) in outstanding domestic debt. Jamaica still has about USD 7 billion in external debt and, for now, this portion appears to off the table for any restructuring plan. Byles said that 80 percent of the domestic debt is short-term in nature and matures within ten years; of this, fifty percent is at a fixed rate with the balance in variable rate instruments. According to Byles, this variable rate portion would be the target for any restructuring plan. This debt was issued at interest rates between 17 and 24 percent, with some issued as recently as last year. However, he cautioned that those holding the lower end of this interest rate spectrum might flee to debt instruments issued by other countries, such as Trinidad and Tobago, that are paying a seven percent rate of return and have a very low risk of default.

At Least Three Firms At Risk for Failure

¶8. (C) Both Hylton and Byles mentioned that at least three smaller financial institutions in Jamaica are at risk of failing. Speculation is that the three are Capital and Credit Merchant Bank, Jamaica Money Market Brokers (JMMB), and possibly Barita Investments. Each holds a disproportionate amount of GOJ debt compared to other assets, and would not likely survive a move to significantly restructure the debt. JMMB announced on November 18 that it was acquiring 80 percent of a Dominican Republic savings and loan in order to reduce its investment portfolio in certain areas until the markets improve. Hylton said the Bank of Jamaica has had to intervene to support these (unnamed) institutions, and appears to be pushing for a merger among them in order to strengthen their position and stave off a collapse.

Business Confidence Stalling, Panic Could Follow

--- -----

¶9. (C) Any collapse of a financial institution, regardless how small, would send shockwaves throughout the financial services

sector and panic through an already skittish economy (Reftel C). (NOTE: Jamaica is still recovering from a collapse of several Ponzi schemes, most notably Olint and Cash Plus (Reftel D). Olint once held an estimated USD 220 million in deposits while Cash Plus held close to USD 45 million. As liquidators work through the records of these schemes, it appears that investors will recover only pennies on the dollar in compensation, if anything at all. END NOTE). Both Byles and Hylton said the fallout from the collapse of these schemes is still making its way through the economic system. This could lead to higher loan defaults following a surge in consumption spending, as investors anticipated outsized returns from the schemes. The private sector is also holding its breath for an IMF Standby Agreement, which continues to be pushed back (Reftel C). The GOJ has also telegraphed that the Standby Agreement is for USD 1.2 billion, a figure that the GOJ apparently pulled out of the air (Reftel D). Hylton said that if the IMF agreement is for only USD 800 million, it will send a panic through the system. Byles made a similar comment and said that any further delay in a deal, or a deal for less than the amount promised by the GOJ, will result in turmoil in the markets.

Comment

¶10. (C) Leaders in the Jamaican private sector appear uncharacteristically pessimistic about the immediate future of the local economy. They are placing a great deal of hope on the proposed IMF Standby Agreement, but have little confidence in PM Golding and his JLP-led administration to get it done. When the JLP returned to power in 2007 after 18 years in opposition, the victory was met with a groundswell of optimism in the private sector, which thought the country would finally chart a course for positive growth and put an end to years of deficit spending. Two years later the private sector is now talking about the possibility of panic in the markets and the rising risk of capital flight, the initial indicators of which are already being seen. Unfortunately for Jamaica, there is no other exiled political party to restore hope: and there is little confidence that either the JLP, or the opposition Peoples' National Party (PNP), has the courage to overcome the current economic crisis. If an IMF breakthrough is not forthcoming, or if the private sector does not take up the mantle to work out a debt restructuring deal, Jamaica could see its already dire economic situation take a turn for the worse.

Parnell